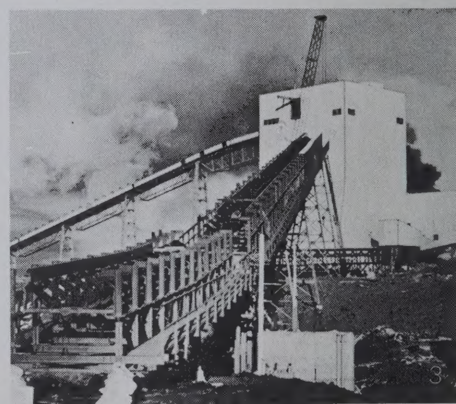
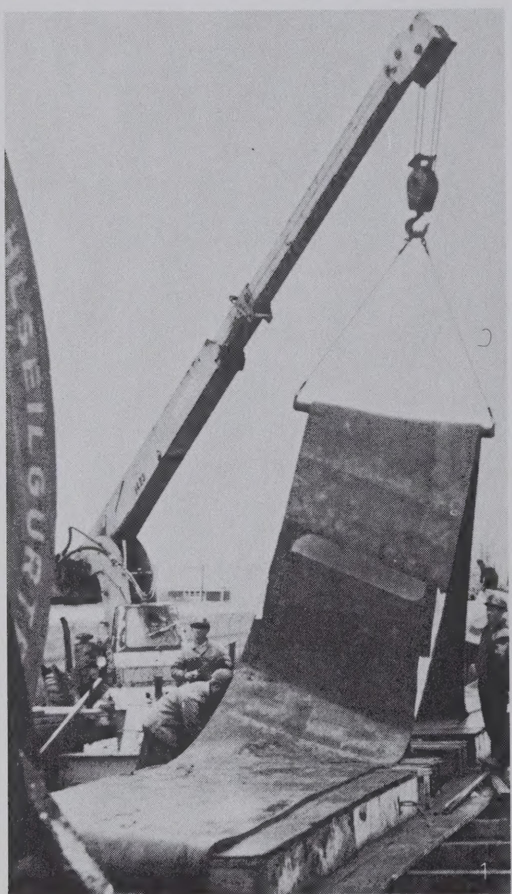
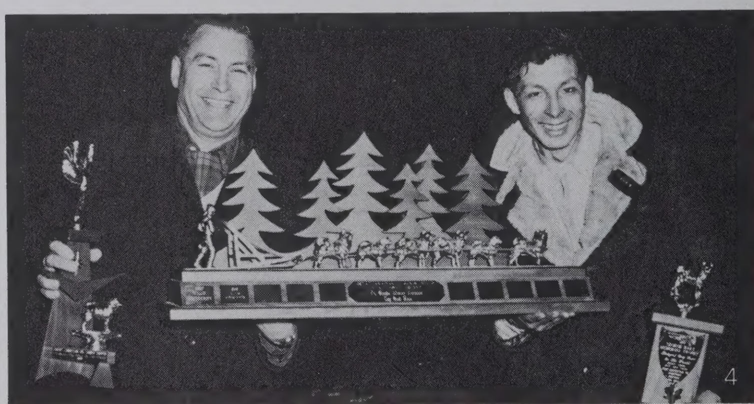
GREAT CANADIAN OIL SANDS LIMITED / 1969 ANNUAL REPORT







1. New, heavier belting is installed on original conveyor system.

2. Bucketwheel excavator feeds conveyor system leading to separation plant.

3. Construction of new conveyor system was begun.

4. Winner of longest dogteam race in the world receives GCOS trophy.

5. GCOS employees are active in community activities. Here students at local school get a geology lesson.

6. Robert Thompson, first GCOS employee with five years of service, receives emblem award.

GREAT CANADIAN OIL SANDS LIMITED

Report of the Directors to the Shareholders and to the Employees

Many of your Company's operating problems were resolved in 1969 with a resulting improvement in production. Synthetic crude production totalled 9,978,000 barrels and sulphur output was 49,000 tons. The overall results, however, fell short of expectations.

As previously reported, production was restricted during the first six months of the year. In the first quarter, the first winter of commercial operation, extreme weather conditions severely hampered output. During the second quarter, a three-week planned shutdown for maintenance was taken. Throughout July and the first three weeks of August, the plant operated at its authorized capacity of 45,000 barrels per day. Production was then interrupted by a strike which ran through the last week of August. During the last quarter, sustained periods of production were interrupted by mechanical problems that caused shutdowns in the process area.

About six million cubic yards of overburden were removed from areas to be mined. Your Company is continuing to look closely at overburden removal methods, seeking ways to further improve efficiencies and reduce costs.

Mining operations received detailed attention and we are able to report substantial improvement. Design of a second conveyor to the extraction plant was completed on schedule. Construction was begun during the fall and completed in January 1970. As well, new, thicker belting was installed on the original conveyor system. These changes should assist in maintaining continuous mining operations. A tar sands blasting program and further improvements in bucket and tooth design also were carried out in anticipation of winter conditions. Blasting was first used successfully in 1968 to fluff up the tar sands in the warmer weather, thus making it easier to dig during the winter months.

The extraction plant functioned smoothly and demonstrated its capability of producing specification material at design capacity. This plant, unique in the oil industry, utilizes the hot water separation process to free the bitumen from the sand. At year end, modifications were under way to increase the capacity of each of the four extraction lines to some 2,000 tons per hour. With relatively small investment, this will result in higher bitumen production by enabling the extraction plant to accept output peaks from the mine.

Following major changes to the power plant boilers, they have been operated at design levels for short periods, but some further modifications are necessary to achieve sustained operation at required capacity. These modifications are planned for the coming spring. In the meantime, as a result of changes already made, and the installation, previously announced, of three package boilers during the 1968-1969 winter months, the Company has an adequate source of power and steam.

The Alberta Government has granted your Company permission to make up a portion of its underproduction. As announced by the Alberta Oil and Gas Conservation Board, the Company will be permitted to carry forward the underproduction, up to a maximum of 10 percent of the authorized yearly production, to the following year.

Community leaders have made great progress in further developing Fort McMurray. Skiing, curling and golfing facilities have been built. Expansion of hospital facilities is underway. A number of commercial establishments have been completed which adds to the level of services now available to the residents. The Company has now built a total of 438 houses, plus 80 duplex and 23 apartment units, and has assisted the town in the development of its street paving program.

Your Company experienced a loss of $25,546,111 in 1969. The loss largely resulted from intermittent production at less than capacity, with resulting high operating and maintenance costs; a sharp drop in world sulphur prices; and a further increase in employee wages, salaries and benefits. No comparison with the previous year is possible because the plant was considered in commercial production for only the last three months of 1968.

Following approval at the March 28, 1969 shareholders' meeting, $145,000,000 of short term notes payable to parent and affiliated companies were replaced on March 31, 1969 by $145,000,000 aggregate par value of 7% non-cumulative redeemable preferred shares issued to Sun Oil Company.

Additional funds required by your Company in 1969 amounted to approximately $27,200,000 and were obtained from short term note borrowings and bank loans guaranteed by Sun Oil Company.

In conclusion, the year has shown all areas of the plant capable of operating at design capacity. For the coming year, our efforts must be directed towards the goal of sustained operation. We commend our employees and suppliers for their fine performance and look forward to a year of improved results.

W. H. Rea

W. Harold Rea
Chairman of the Board

K. F. Heddon

Kenneth F. Heddon
President

January 30, 1970

GREAT CANADIAN OIL SANDS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET—December 31, 1969

(with comparative figures at December 31, 1968)

Assets	1969	1968
Current:		
Cash	$ 201,046	$ 283,475
Accounts receivable (note 2)—		
Trade	1,955,819	2,274,211
Other	641,300	2,423,696
Inventory of finished product, at estimated net realizable value	1,302,331	1,786,516
Prepaid charges	3,179,235	2,780,215
Total current assets	7,279,731	9,548,113
Plant facilities and housing (note 3):		
Plant, buildings and equipment, at cost	182,085,723	178,147,449
Less accumulated depreciation	7,602,986	3,732,971
	174,482,737	174,414,478
Housing—		
Rental housing properties and trailers, at cost (less accumulated depreciation 1969—$1,003,022, 1968—$690,406)	2,061,173	2,396,645
Houses to be sold under long-term instalment sale agreements with employees, at selling price which is less than cost	376,904	236,716
Amounts receivable, under long-term instalment sale agreements, for houses sold to employees (note 6)	6,857,733	5,703,162
Total plant facilities and housing	183,778,547	182,751,001
Deferred costs (note 3):		
Deferred development, preproduction and start-up costs, less write-offs and amortization	65,872,459	67,124,304
Deferred overburden removal (stripping) costs	13,168,437	10,778,670
Total deferred costs	79,040,896	77,902,974
	$270,099,174	$270,202,088

Liabilities and shareholders' equity	1969	1968
Current:		
Bank loans	$ 16,050,000	$ 6,550,000
Short term notes payable to parent company	5,000,000	—
Accounts payable and accrued charges (note 2)	5,353,639	7,142,963
Total current liabilities	26,403,639	13,692,963
Non-current (note 4):		
Short term notes which are to be refinanced—		
Payable to parent and affiliated companies	—	145,000,000
Payable to others	62,850,000	50,125,000
6% unsecured debentures (Alberta issue) due May 15, 1975	12,374,764	12,392,332
5¾% U.S. $50,000,000 notes due July 1, 1991, translated at exchange rates prevailing at dates of issue	53,769,000	53,769,000
6¼%—8¼% mortgages payable on houses sold and to be sold and rental units (repayable over terms up to 25 years)	6,612,899	6,605,378
Total non-current liabilities	135,606,663	267,891,710
Shareholders' equity:		
Capital (note 5)—		
Authorized: 3,000,000 voting preferred shares of $100 par value each, issuable in series; 9,000,000 common shares without nominal or par value		
Issued: 1,450,000 7% non-cumulative redeemable preferred shares, Series "A"	145,000,000	—
5,994,384 common shares (1968—5,992,188 shares)	26,061,616	26,044,048
Deficit	(62,972,744)	(37,426,633)
Total shareholders' equity (deficiency)	108,088,872	(11,382,585)
	$270,099,174	$270,202,088

On behalf of the Board:
W. H. REA, Director
J. S. ROE, Director

See accompanying notes to financial statements

STATEMENTS OF INCOME AND DEFICIT

for the year ended December 31, 1969
(with comparative figures for the three months ended December 31, 1968—note 1)

	1969	1968 (3 months)
Income		
Revenue:		
Value of synthetic crude and sulphur produced for sale	$ 28,471,961	$ 6,370,269
Costs and expenses:		
Costs and operating expenses	35,408,607	9,143,195
Administrative and general expenses	1,283,331	376,682
Amortization of deferred development, preproduction and start-up costs.	1,251,847	273,505
Depreciation	4,240,303	1,001,570
Interest—		
On bank loans and short term notes	6,273,201	1,513,558
On long term notes and debentures	5,560,783	2,729,220
	54,018,072	15,037,730
Loss for the period	$ 25,546,111	$ 8,667,461
Deficit		
Balance, January 1	$ 37,426,633	—
Loss for the period (as above)	25,546,111	$ 8,667,461
Add amount written off deferred development, preproduction and start-up costs as an extraordinary charge	—	28,759,172
Balance, December 31	$ 62,972,744	$ 37,426,633

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
Source of funds:		
Issue of 7% non-cumulative redeemable preferred shares	$145,000,000	—
Increase in short term notes and bank loans	27,225,000	$ 47,600,000
Mortgages on houses (net)	7,521	2,118,400
Decrease in current assets (less decrease in accounts payable and accrued charges)	479,058	—
	$172,711,579	$ 49,718,400
Application of funds:		
Loss for the period (less depreciation and amortization 1969—$5,492,150; 1968—$1,275,075)	$ 20,053,961	$ 7,392,386
Repayment of notes payable to parent and affiliated companies	145,000,000	—
Increase in deferred overburden removal costs	2,389,767	5,674,532
Plant facilities and housing	5,267,851	3,911,213
Deferred development, preproduction and start-up costs (less depreciation $736,100)	—	28,023,072
Increase in current assets (less increase in accounts payable and accrued charges)	—	4,717,197
	$172,711,579	$ 49,718,400

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 1969

1. Operations
The accompanying statement of income covers operations for the full year 1969. The comparative figures for 1968 cover the three month period October 1 - December 31, 1968. October 1, 1968 is the date on which the company considered its plant to have commenced commercial production on a sustained basis.

2. Accounts with affiliated companies
Included in accounts receivable and accounts payable are the following amounts receivable from, or payable to, Sun Oil Company Limited (parent company) and its affiliates:

Accounts receivable	$1,273,283
Accounts payable and accrued charges	564,159

3. Depreciation of plant facilities and housing and amortization of deferred costs
The company's productive facilities are being depreciated using a unit of production method based on estimated reserves. Furniture and fixtures and automotive equipment are being depreciated over their estimated useful life periods ranging from 3 to 10 years. Rental housing properties are being depreciated over 5 years (trailers) and 25 years (buildings). Deferred development, preproduction and start-up costs are being amortized against income using a unit of production method based on estimated reserves. Deferred overburden removal (stripping) costs are being charged to production on the basis of the area actually mined.

4. Non-current liabilities
(a) Short term notes which are to be refinanced —

It is the company's intention to arrange long term debt or equity financing to replace the short term notes of $62,850,000 shown as payable to others at the year end. Sun Oil Company has undertaken to effect such replacement itself if the company is unable to arrange long term debt or equity financing from other sources.

(b) 6% unsecured debentures (Alberta issue) —

These debentures, which mature on May 15, 1975, comprise the following:

Debentures which are partially convertible (of which $2,075,200 are held by the parent company)	$12,172,600
Debentures in respect of which the partial conversion privilege has been exercised	202,164
	$12,374,764

Subject to certain terms and conditions, the partially convertible debentures may, at any time before May 1, 1975, be converted into fully paid and non-assessable shares of the company on the following basis, that is, with respect to each $100 principal amount of the debentures, $32 thereof may be applied to the purchase of and converted into:

(i) Four shares before May 16, 1970, or
(ii) Three shares after May 15, 1970 and before May 16, 1973, or
(iii) Two shares after May 15, 1973 and before May 1, 1975.

Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest.

(c) 5¾% U.S. $50,000,000 notes due July 1, 1991 —

The terms of the 5¾% notes require annual prepayments of U.S. $2,000,000 commencing July 1, 1971. The terms permit the company to make optional additional annual prepayments of up to U.S. $2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

5. Share capital
(a) Preferred shares—

3,000,000 voting preferred shares of $100 par value each, issuable in series, were authorized by Supplementary Letters Patent dated March 31, 1969 following shareholder approval of By-Law 'G' which authorized application for such increase in authorized capital.

On March 31, 1969 the company issued 1,450,000 of these shares, designated as 7% non-cumulative redeemable preferred shares, series "A", to replace $145,000,000 of borrowings from parent and affiliated companies.

(b) Common shares—

2,196 shares were issued during the year upon the partial conversion of certain of the 6% unsecured debentures. 488,108 shares are reserved for possible issuance in future upon the partial conversion of the remaining debentures. A further 7,500 shares are reserved for possible issuance at $3 per share under an option granted to a director exercisable subject to certain terms and conditions on or before June 29, 1973.

6. Commitments and contingent liabilities
(a) The company is a party to an agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sub-lease of Bituminous Sands Lease No. 86 (approximately 4,500 acres) in respect of which the company is operating its plant. Lease No. 86 runs for a term of 21 years from June 1, 1966 renewable for further terms each of 21 years so long as the plant is in operation and subject to such terms and conditions as may

be prescribed at the time renewal is granted. The annual rental is $1 per acre. Under this agreement the company has also assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca Tar Sands area. Principal payments on this debt have been deferred on an interest free basis until 1978. As the company is hopeful of obtaining relief from this debt, no provision for this amount has been recorded in the accounts of the company.

(b) In addition to crown royalties payable on production, the company is obligated to pay Sun Oil Company Limited and Abasand Oils Limited (under the provisions of the sublease agreement referred to in (a) above) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from bituminous sands from the leased land, together with additional royalties to Sun and Abasand in respect of desulphurized crude oil under certain circumstances, and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. The sublease contains provisions for the payment of advanced royalties under certain circumstances where the annual production from the leased land is less than 8,212,500 barrels of synthetic crude.

(c) Under the provisions of the sale agreements covering the sale of houses to employees, the company has undertaken, in the event of employee termination within 10 years of the date of the sale agreement, to repurchase the employee's house by refunding all principal payments received. The aggregate of principal payments subject to such repurchase commitments at December 31, 1969 was approximately $195,000.

(d) The company is a party to agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of crude oil to be obtained from the project.

(e) Under the terms of an agreement with a supplier, the company will purchase in February, 1970 inventories owned by the supplier, amounting to approximately $5,000,000.

7. Remuneration of directors
The total remuneration paid by the company to directors during 1969, including directors holding salaried employment, amounted to $104,886.

AUDITORS' REPORT

To the Shareholders of
Great Canadian Oil Sands Limited:

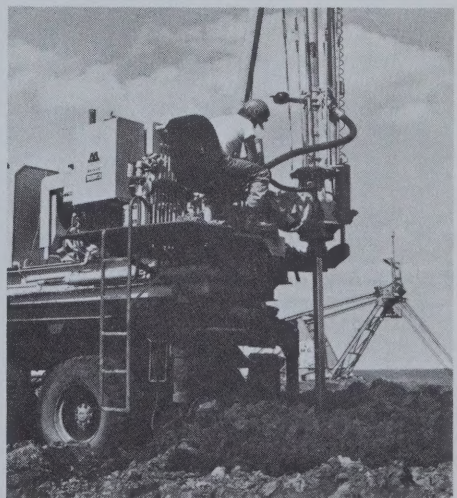
We have examined the balance sheet of Great Canadian Oil Sands Limited as at December 31, 1969 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

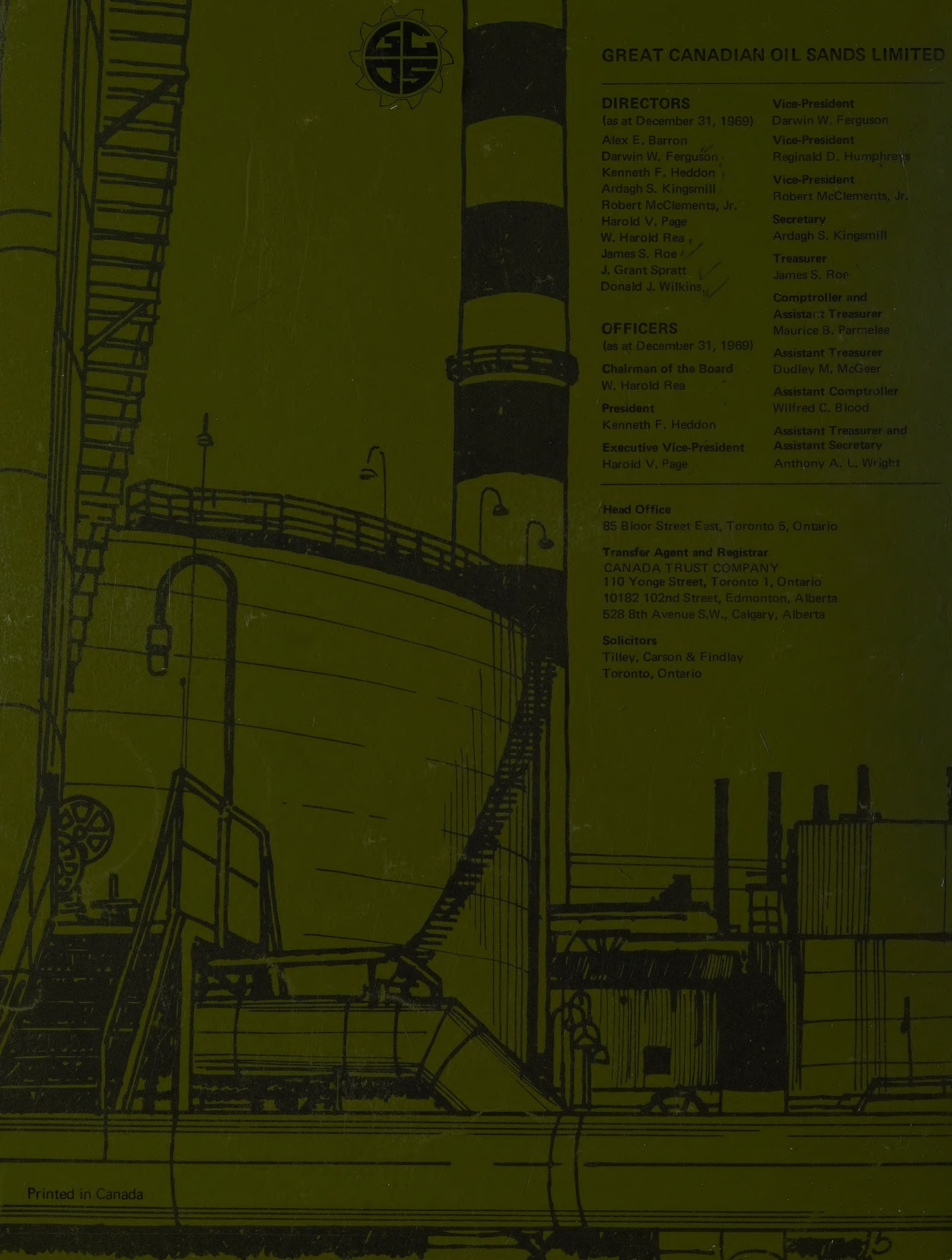
CLARKSON, GORDON & CO.
Chartered Accountants

Edmonton, Canada
January 16, 1970

Checking instruments in power house control room.



Drill prepares hole for blasting. Successful program was continued in 1969.



GREAT CANADIAN OIL SANDS LIMITED

DIRECTORS
(as at December 31, 1969)

Alex E. Barron
Darwin W. Ferguson
Kenneth F. Heddon
Ardagh S. Kingsmill
Robert McClements, Jr.
Harold V. Page
W. Harold Rea
James S. Roe
J. Grant Spratt
Donald J. Wilkins

OFFICERS
(as at December 31, 1969)

Chairman of the Board
W. Harold Rea

President
Kenneth F. Heddon

Executive Vice-President
Harold V. Page

Vice-President
Darwin W. Ferguson

Vice-President
Reginald D. Humphreys

Vice-President
Robert McClements, Jr.

Secretary
Ardagh S. Kingsmill

Treasurer
James S. Roe

Comptroller and Assistant Treasurer
Maurice B. Parmelee

Assistant Treasurer
Dudley M. McGeer

Assistant Comptroller
Wilfred C. Blood

Assistant Treasurer and Assistant Secretary
Anthony A. L. Wright

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